

**REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS
OF SAN BERNARDINO COUNTY, CALIFORNIA
AND RECORD OF ACTION**

61

March 4, 2003

FROM: **ROGER WEAVER**, Director
Fleet Management Department

SUBJECT: **FLEET MANAGEMENT DEPARTMENT RATE ADJUSTMENTS**

RECOMMENDATIONS:

1. Approve adjustments to the Fleet Management Department rates effective July 1, 2003 (Attachment A).
2. Approve new schedule of heavy equipment rates effective July 1, 2003 (Attachment B).

BACKGROUND INFORMATION: Fleet Management rate activities for the past ten years:

- Rates were not adjusted between fiscal years 1992-93 and 2002-03.
- In early-2002, the Board authorized a study of Fleet Management Department rates by an independent contractor. On July 2, 2002, the Board approved recommended changes for fiscal year 2002-03.
 - Recommendations included rates for labor, parts, motor pool vehicles, fuel, and replacement age criteria for motor pool vehicles.
 - Most of the approved rates were deferred at the recommendation of the Director of Fleet Management due to the timing of the new rates in relation to the budget approval process.
 - Also approved at this time was a new policy for an annual rate development by the Fleet Management Department using a methodology produced during the rate study.

The proposed rate adjustments were developed using current fiscal year expenses, current demand for Fleet Management services, and projected cost increases; however, as countywide impacts of budget constraints are implemented, Fleet Management's actual expenses and revenues will decrease due to a lower demand for services. As shown on Attachment A, only three of the proposed rates are increasing over the current actual or deferred fiscal year 2002-03 rates. Attachment C shows a comparative sample between proposed rates and prevailing market rates.

The Fleet Management Department relies on two shifts of shop personnel to increase efficiency, enhance customer service, control costs, and provide emergency vehicle services. The two shifts allow the various shops to adjust their schedules to most efficiently meet the customer's needs. Two shifts also decreases turn-around time for major repairs. Additionally, supporting two shifts allows the department to economically manage emergency responses. In organizations without the benefit of two-shift, vehicle towing and/or emergency repairs completed after the first shift usually results in hefty overtime bills or after-hour repair rates for outside vendors. After-hours rates from vendors are typically more than \$100 per hour with a minimum charge of two to three hours. These charges are avoided altogether because of Fleet Managements current operating schedule.

HOURLY SHOP RATES

Historically, rates for the heavy duty and light duty shops were the same and the assignment of employees and work was of little consequence. In fiscal year 2002-03, separate rates were established for the heavy duty and light duty shops. Fleet Management has now determined that jobs were not being properly aligned in the appropriate cost center. There was heavy -duty work being completed in the light duty shop

Page 1 of 3

Record of Action of the Board of Supervisors

61

and there was light duty work being completed in the heavy-duty shop. The department has shifted employees and workload between the two shops to better align functions, which enables the department to develop more accurate shop rates.

FUEL AND LOCK-UP SERVICES

The Fuel and Security Section provides fueling station operations at 22 sites throughout the County, vehicle fueling via a tanker truck during off-hours, and an after hours lock-up service at various County buildings and yards in San Bernardino. The department performs a minimal amount of lock-up services, which makes it difficult to calculate an accurate rate; however, Fleet Management has determined that the current rate of \$51 per hour is too high and \$25 per hour would be more appropriate. This section is also responsible for providing technical assistance to departments on matters related to fuel storage tanks in the County. This work includes developing specifications, overseeing installation and removal of tanks, and adhering to all regulations and testing mandates. There is little demand for this service and the proposed rate of \$60 per hour is significantly less than the current rate for an outside consultant.

FUEL MARK-UP

Historically, a single rate has been developed for all fuels—gasoline, diesel, and compressed natural gas (CNG). During fiscal year 2002-03, the department realized that CNG expenses could actually be separated from gasoline and diesel expenses. Since the fiscal year 2002-03 rates were developed, CNG expenses have been isolated and more accurate rates have been developed.

Under the current rate structure, diesel and gasoline customers (mostly County customers) are subsidizing CNG operating costs (mostly non-County customers). The proposed rate adjustments will correct this situation by reducing the gasoline and diesel rate while establishing a CNG rate based on actual costs.

PARTS

More accurate information for the Parts operation is now available than when the rates were calculated for fiscal year 2002-03. Additionally, the warehouse function, which had been a separate operation, was consolidated into a "parts room" structure. This consolidation included a reduction of the size of the warehouse by nearly 50%. In addition, control of the warehouse was reassigned to the parts room supervisor. There were a large number of surplus used tires that were on-hand that have been removed and the space they occupied has been converted to additional parking. Together, all of these activities have resulted in lower operating and overhead costs for the parts and warehousing functions. The proposed mark-up on parts less than \$2,000 has decreased from 47% to 39% with no change in the mark-up for parts greater than \$2,000.

MOTOR POOL

The proposed replacement policy for motor pool vehicles remains unchanged from the existing policy. The current policy is:

- Six year replacement for sedans.
- Seven year replacement for pickups and other vehicles

As of December 2002, 457 of the 1,832 vehicles in the motor pool (34%) were older than the current replacement policy. After the fiscal year 2002-03 budgeted vehicle purchases are completed (about May 2003, unless budget constraints impact the purchase decision), the over age vehicles in the motor pool will drop to about 250 (19%). The over age vehicles are contributing significantly to the increasing variable operating costs. As the policy age of vehicles is achieved, the variable operating expenses are expected to begin a steady decline. Assuming all other factors remain unchanged, the variable rates that will be proposed for fiscal year 2004-05 should be less than the adjusted variable rates proposed at this time.

The only fixed or variable motor pool rate proposed to increase over the current actual or deferred fiscal year 2002-03 rates is the variable rate for mid-size vehicles from \$0.21 to \$0.23 per mile. This increase will impact 668 of the 1,832 total motor pool vehicles. The majority of County vehicles average between 12,000 and 15,000 miles annually. At 15,000 miles per year, the variable cost of a mid-size vehicle would be an additional \$300 per year.

**BOARD OF SUPERVISORS
FLEET MANAGEMENT DEPARTMENT 2003-04 RATE ADJUSTMENTS**

March 4, 2003
Page 3 of 3

61

HEAVY EQUIPMENT RATES

Currently, heavy equipment is purchased by departments. Fleet Management maintains the equipment using the heavy duty hourly rate and parts mark-up. The proposed heavy equipment rates are for departments that wish to take full advantage of Fleet Management services, including the purchase and replacement of heavy equipment. This would ensure more timely preventative maintenance, resulting in a reduction of overall maintenance costs. In addition, monthly expenditures for each piece of equipment would only vary based on actual usage of the equipment. As the number of pieces of heavy equipment grows, Fleet Management will develop more accurate rates for specific equipment categories in the annual rate proposal based on actual fixed and variable costs as appropriate.

Fleet Management's philosophy is simple – departments should only have to think about and perform their business. Fleet Management should be the *invisible provider* of all vehicle and equipment needs for all County departments. The proposed heavy equipment rates will provide the flexibility needed to enable the Fleet Management Department to more fully meet this challenge.

REVIEW BY OTHERS: This item has been reviewed by the Auditor/Controller-Recorder (Howard Ochi, Chief Deputy Auditor) on January 30, 2003 and the County Administrative Office (Daniel R. Kopp, Administrative Analyst) on February 21, 2003.

FINANCIAL IMPACT: The proposed rate adjustments were developed using current fiscal year expenses, current demand for Fleet Management services, and projected cost increases; however, as countywide impacts of budget constraints are implemented, Fleet Management's actual expenses and revenues will decrease due to a lower demand for services.

Based on a 30% spending reduction scenario (as shown below), Fleet Management's expenditures and revenues would decrease by \$4.2 million and \$6.5 million respectively compared to actual expenditures and revenues in 2001-02 and decrease by \$8.9 million and \$6.0 million respectively compared to projected expenditures and revenues in 2002-03.

	Expenditures	Revenues
2001-02 actual	\$22,237,530	\$23,963,022
2002-03 projected	\$26,973,000	\$23,428,000
2003-04 based on 30% spending reduction	\$18,087,000	\$17,446,000

COST REDUCTION REVIEW: The County Administrative Office has reviewed this agenda item, concurs with the department's proposal, and recommends this action based on an analysis of the department's budget and long-term plan. Approving the proposed rate adjustments will enable the department to operate in a fiscally prudent manner.

SUPERVISORIAL DISTRICTS: All

PRESENTER: Roger Weaver, Director, 387-7870

61